

VZCZCXRO6210
RR RUEHAG RUEHBC RUEHDE RUEHDF RUEHIK RUEHKUK RUEHLZ RUEHROV
DE RUEHLB #1014/01 1961119
ZNR UUUUU ZZH
R 141119Z JUL 08
FM AMEMBASSY BEIRUT
TO RUEHC/SECSTATE WASHDC 2460
INFO RUEHEE/ARAB LEAGUE COLLECTIVE
RUCNMEM/EU MEMBER STATES COLLECTIVE
RHEHAAA/NSC WASHDC
RUEATRS/DEPT OF TREASURY WASHDC
RUCPDOC/USDOC WASHDC

UNCLAS SECTION 01 OF 03 BEIRUT 001014

SENSITIVE

SIPDIS

STATE FOR NEA/ELA
STATE PASS USTR
TREASURY FOR MNUGENT AND SBLEIWEISS
USDOC FOR 4520/ITA/MAC/ONE
NSC FOR ABRAMS/SINGH/YERGER/DEMOPOLOUS

E.O. 12958: N/A

TAGS: [ECON](#) [EFIN](#) [PREL](#) [PGOV](#) [LE](#)

SUBJECT: SYRIA TAX ON TRUCKS COULD OBSTRUCT TRADE, INFLATION
CONTINUES TO RISE (ECONOMIC WEEK IN REVIEW, JULY 7 - 13, 2008)

CONTENTS

-- SYRIAN TAX ON TRUCKS COULD OBSTRUCT TRADE, LEBANESE EXEMPTED FROM
DEPARTURE TAX
-- INFLATION CONTINUES TO RISE
-- SALARY INCREASES ON HOLD, WAITING FOR NEW CABINET
-- 60 ISRAELIS ACCUSE SIX LEBANESE BANKS OF FINANCING HIZBALLAH,
BANKING OFFICIALS DENY
-- GOL REINSTATES PROGRAM SUBSIDIZING AGRICULTURAL EXPORTS
-- LEBANON'S LARGEST CERAMICS FACTORY ON THE VERGE OF SHUTTING DOWN
-- MINISTRY OF POST AND TELECOMMUNICATIONS REVENUE OVER ONE BILLION
IN 2007
-- IMF: EFFECT OF OIL AND FOOD PRICE INCREASES ON LEBANON IS SEVERLY
NEGATIVE

SYRIAN TAX ON TRUCKS COULD OBSTRUCT TRADE,
LEBANESE EXEMPTED FROM DEPARTRE TAX

[¶1.](#) (U) On July 3, the Syrian authorities began imposing a "gas tax" of around \$300 on regular trucks leaving Syrian territory and \$500 on refrigerated trucks. Head of the Lebanese Syndicate of Fruit and Vegetable Exporters said that this tax would lead to losses of around \$50,000 per day for refrigerated trucks. Most of Lebanon's agriculture exports go either to Syria, and those intended for Jordan and the Gulf also go through Syria by land. In response, Jordan began imposing a \$340 tax on Syrian trucks, and Saudi Arabia a \$533 tax.

[¶2.](#) (U) Meanwhile, on July 9 the local press reported that Lebanese President Michel Sleiman thanked his Syrian counterpart during a telephone conversation over the Syrian cabinet's decision to exempt Lebanese nationals from paying the "departure tax" when crossing the Syrian border into Lebanon. However, no mention was made regarding the gas tax. Earlier in the week, Syrian authorities revised the fees they imposed on each person regardless of nationality departing Syria via land (\$10), air (\$34), as well as for each car entering Syria (\$30).

INFLATION CONTINUES
TO INCREASE

[¶3.](#) (SBU) According to the Central Administration of Statistics (CAS), inflation rose by 4.4 percent in the first five months of 2008, a senior CAS contact said, noting that this figure is "very

high." In January 2008, CAS adopted a new methodology for calculating inflation, and thus cannot calculate inflation on an annualized basis; however our contact told us that from December 1999 till May 2008, inflation reached 30 percent.

¶4. (U) On the other hand, reputed private consultancy firm Consultation and Research Institute (CRI) indicated that prices rose by six percent in the first five months of 2008; with a yearly increase in prices in May 2008 of 12.98 percent. The rise in the consumer price index in the first months of 2008 is mostly due to a rise of 11.72 percent in prices of food and beverages, 9.73 percent in personal care, and 8.31 percent in transportation and telecommunications. Meanwhile, Consumer Lebanon (CL) association indicated on July 1 that during the second quarter of 2008, prices of consumer goods rose by 4.47 percent. CL estimated that cumulative inflation of basic commodities in the past two years amounted to 47.5 percent.

SALARY INCREASES ON HOLD,
WAITING FOR NEW CABINET

¶5. (SBU) The Cabinet's decision on May 6 to raise salaries in the public and private sectors is still pending. When the decree was first issued, resigned Labor Minister Trad Hamadeh refused to sign it, which is needed to authorize raising the minimum wage in the private sector. Senior economic and financial contacts explained this by saying that Hamadeh rejected any decision taken by the Siniora Cabinet, which he did not recognize. Currently, his refusal to sign it is attributed to Hamadeh's belief that such a decree should not be signed by a caretaker minister, our contacts said. Meanwhile, implementing salary increases in the public sector

BEIRUT 00001014 002 OF 003

requires legislations, and a draft project law for this purpose has already been sent to PM Siniora, a senior contact at the Finance Ministry told us. The contact noted that PM Siniora will wait for the next Cabinet to be in place to send the draft law to parliament.

60 ISRAELIS ACCUSE SIX LEBANESE BANKS OF
FINANCING HIZBALLAH, BANKING OFFICIALS DENY

¶6. (SBU) Arab nationalist As-Safir reported on June 8 that about 60 Israelis filed court cases in New York against five Lebanese banks (Fransabank, Bank of Beirut, Banque Libano-Francaise, Middle East & Africa bank, and Banque Libanaise pour le Commerce (BLC)) and in Montreal against one Lebanese bank (Lebanese Canadian Bank) for allegedly opening bank accounts to finance Hizballah activities. President of the Association of Banks in Lebanon (ABL) Francois Bassil refuted such allegations. "These are lies; rumors to hurt the reputation of Lebanese banks abroad," he told us, stressing that the banks are not aware of these lawsuits. He also stressed that Lebanese banks are taking strict measures fighting terrorism finance.

¶7. (U) Meanwhile, Central Bank Governor (CBL) Riad Salameh and the ABL issued separately public statements asserting that Lebanon's banking sector abides by international standards and is compliant with FATF recommendations, and that the Lebanese financial system abides by legislation recognized and accepted internationally. Salameh added that "cases raised occasionally against normal banking activities are handled by the judicial authorities and does not require all this fuss." ABL noted that Lebanese and Arab banks are occasionally subject to defamation campaigns; however, such campaigns will not affect the banks' credibility regionally and internationally.

GOL REINSTATES PROGRAM SUBSIDIZING
AGRICULTURAL EXPORTS

¶8. (U) Following widespread criticism from farmers and threats to take to the streets in protest, PM Siniora announced on July 7 that the GOL would reinstate the Investment Development Authority of

Lebanon (IDAL)'s "Export Plus" program, under which the transport of certain agricultural goods was subsidized based on quantity and export destination. Effective June 1, the Cabinet decided to suspend the program for one year. Minister of Economy and Trade (MOET) Sami Haddad had said that Export Plus increased prices of goods in the local market and benefited exporters of agricultural products, rather than farmers and consumers.

LEBANON'S LARGEST CERAMICS FACTORY
ON THE VERGE OF SHUTTING DOWN

¶9. (U) On July 8, local English newspaper The Daily Star reported that Lebanon's largest ceramics factory Uniceramic halted its local operations and dismissed most of its staff, due to high energy costs and unfair competition from neighboring countries -- mostly Egypt. Uniceramic is still hoping to raise enough money from banks and interested investors to resume operations, but at a much smaller scale. President of the Association of Lebanese Industrialists (ALI) Fadi Abboud was quoted as saying that given that ceramics production is an energy-intensive industry, unfair competition originates mainly from Egypt and Qatar -- both of which heavily subsidize the cost of energy -- while defying World Trade Organization (WTO) obligations. Uniceramic recorded losses of around \$5.4 million in 2007 and expects even higher losses in 2008.

MINISTRY OF POST AND TELECOMMUNICATIONS
REVENUE OVER ONE BILLION IN 2007

¶10. (U) The Ministry of Post and Telecommunications (MPT) announced that its revenues for 2007 reached \$1.33 billion, a 12.6 percent increase compared to 2006. Transfers from the MPT to the Treasury reached \$1.1 billion in 2007, up by 29 percent compared to 2006.

IMF: EFFECT OF OIL AND FOOD PRICE
INCREASES ON LEBANON IS SEVERLY NEGATIVE

BEIRUT 00001014 003 OF 003

¶11. (U) According to the IMF's recently released study "Food and Fuel Prices- Recent Developments, Macroeconomic Impact, and Policy Responses," the oil and food price shocks have both led to a 3.8 percent widening of Lebanon's 2009 projected ratio of the current account deficit to GDP, to be set at 14 percent. Moreover, the volume of forecasted Central Bank reserves in months of next year's imports of goods and services fell by 1.2 months, or 16.2 percent due to both shocks. The IMF concluded that the overall effect of both shocks on Lebanon was severely negative.

GRANT